

Wisconsin Department of Public Instruction, Financial Services Team
WISCONSIN PUBLIC SCHOOL DISTRICT AUDIT MANUAL

1.1 General Aids Audit Program

Funding: State funded (state identification number 255.2xxx)

REPORTING PROCESS

The Department of Public Instruction "DPI" is required to annually certify by October 15 school district General Aid eligibility. School districts provide information needed for aid determination on form *PI 1505 AC "Annual Report - Aid Certification Data"*. The *PI 1505 AC* is required to be submitted by the district via the Internet no later than the last Friday in August.

Auditor examination of the *PI 1505 AC* information is required. Districts and auditors are encouraged to reach agreement on the *PI 1505 AC* items prior to submission. The DPI will review and approve the *PI 1505 AC* prior to opening the *PI 1506 AC* for auditor completion.

The auditor will complete a *PI 1506 AC "Audit Statement - Aid Certification Data Form"* via the Internet containing data corresponding to the district's *PI 1505 AC*. The filing date for the *PI 1506 AC* is the second Friday in September. **The information provided on the Internet *PI 1506 AC* (represented to be examined in accordance with these procedures) will be used by the department in determining aid eligibility required to be certified to the district.** In addition to the Internet *PI 1506 AC* filing, the auditor must provide the DPI with a signed *Financial Audit Statement PI-1506* paper form, accompanied by a paper "hard" copy of the *PI 1506 AC Audit Statement - Aid Certification Data Report* resulting from filing the *1506 AC Data Form*, and a written attestation report regarding the Internet submitted *PI 1506 AC* information.

If the Internet filing of the *PI 1506 AC* data is not completed by the due date, the DPI will send a letter to district's school board (the contracting party with auditor). This letter will advise the board that the auditor was late in filing the key document used in determining district's aid eligibility and tax levy authority. The letter will urge the district to consider the auditor's adherence to required filing dates when contracting for audit services.

The following procedures provide for determining that information the school district has submitted on the *PI 1505 AC* is fairly presented in accordance with Department of Public Instruction requirements.

NEW FOR 2005-2006

Wisconsin Act 25, enacted in November 2005, provides for a potential modification to 2005-06 district shared cost for aid paid in 2006-07. This provision applies to any district using fund balance to pay their unfunded pension liability under WRS and for which the result of excluding such expenditures from their shared cost would result in an increase in Equalization Aid. This modification potentially applies to approximately 130 districts that are "negatively aided."

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Any district that makes any type of payment from their fund balance to reduce the unfunded pension liability portion under the Wisconsin Retirement System (WRS) is eligible for this shared cost adjustment. This refers to both payments made directly to WRS or for debt payments that are a result of the district borrowing money to then pay off the unfunded liability.

For shared cost to be modified, the school district must maintain minutes of a school board meeting in fiscal year 2005-06, prior to June 30, 2006, that reflect action taken by the board to use fund balance to pay the school district's unfunded pension liability under the Wisconsin Retirement System, including the monthly 1.3% normally paid by the district, a "lump sum" additional payment from fund balance, or to pay debt service for debt issued to refinance the balance of the unfunded pension liability.

- A. Review school board minutes to verify a separate resolution was passed, prior to June 30, 2006, to use fund balance to pay the school district's unfunded pension liability under the Wisconsin Retirement System or to pay debt service for debt issued to refinance the balance of the unfunded pension liability.
- B. Verify the amount of the expenditure(s) and that the actual payment was made as of June 30, 2006.
- C. Verify that any WRS accrual at June 30, 2006 relates only to the summer payroll as determined by the summer payroll register.
- D. Lump sum payments on the WRS unfunded liability in fund 10 should be reported in function 290 000, object 210 (detailed coding is function 299000, object 211).
- E. Payment of debt service in fund 38 or fund 39 for debt issued to refinance the balance of the unfunded pension liability should be reported in function 289000.

PRELIMINARY & OVERALL PROCEDURES

1.1. Form *PI 1505 AC*:

- 1.1.1. Trace District amounts on *PI 1505 AC* report to district ledger and/or trial balance.
- 1.1.2. Provide the DPI with correct amounts by completing the auditor column on the *PI 1506 AC*. Review all issues identified in the quick audits. Determine the reasonableness of any variances.

ANNUAL REPORT ENTRIES PER DPI DATA BASE

- 2. The DPI maintains on record at DPI information related to aid payments, tax levies, and data previously reported by the district. Any variance on the *PI 1505* from DPI records will result in an error that the district must correct in order to submit the annual report. Determine agreement of the following *Annual Report Entries* to the *PI 1505 AC* data and reasons for any differences.

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2.1. Beginning Fund Balances:

- 2.1.1. Account 10 B 900 000 001 General Fund
- 2.1.2. Account 38 B 931 710 001 Debt Service Fund Refinancing Reserve
- 2.1.3. Account 38 B 931 790 001 Other Debt Service Fund Balance
- 2.1.4. Account 39 B 931 710 001 Debt Service Fund Refinancing Reserve
- 2.1.5. Account 39 B 931 790 001 Other Debt Service Fund Balance
- 2.1.6. Account 41 B 900 000 001 Capital Expansion Fund

2.2. Property Tax Levies:

- 2.2.1. Account 10 R 000 000 211 "Current Year Property Tax" - General Fund
- 2.2.2. Account 10 R 000 000 212 "Property Tax Chargeback" - General Fund
- 2.2.3. Account 38 R 000 000 211 "Property Tax" - Debt Service Fund
- 2.2.4. Account 39 R 000 000 211 "Property Tax" – Referendum Debt Service Fund
- 2.2.5. Account 41 R 000 000 211 "Property Tax" - Capital Expansion Fund

2.3. State Aid Payments:

- 2.3.1. General Aid included in Account 10 R 000 000 620 "General Aid"
 - 2.3.1.1. Equalization Aid - General Fund Revenue Source Account 621
 - 2.3.1.2. Special Adjustment Aid - General Fund Revenue Source Account 623
 - 2.3.1.3. Other General Fund Aid - Revenue - Revenue Source Account 629
- 2.3.2. State Computer Aid - General Fund Revenue Source Account 691

SPECIFIC REVENUE AND EXPENDITURE PROCEDURES

- 3.** Revenue and expenditure information on the *PI 1505 AC* and the related *1506 AC* must be provided in accordance with Department of Public Instruction revenue and expenditure recognition requirements. These requirements are identified in the *Wisconsin Uniform Financial Accounting Requirement* (WUFAR). Determine that the district followed WUFAR in compiling the *PI 1505 AC* data. The items in this section are normally addressed as part of the overall financial audit procedures.

- 3.1. Property Taxes** - The entire property tax levy is considered revenue for the fiscal year levied. The amount recorded by the district in the following tax revenue accounts must agree with the amounts on record with DPI. The DPI obtains property tax levies from the Department of Revenue form *PI 401 - "Schedule of Fund Levies"* filed by the school district. Obtain a copy of the *PI 401 Schedule of Fund Levies* from the district's financial data home page and verify against board minutes that levies are recorded as adopted by the school board:

- 3.1.1. General Fund: Current Levy - Source 211
- 3.1.2. General Fund: Property Tax Chargeback Levy - Source 212

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- 3.1.3. Debt Service Fund: Current Levy - Source 211. The PI 401 amounts are divided between fund 38 "non-referendum" and fund 39 "referendum approved" debt service.
- 3.1.4. Capital Expansion Fund: Current Levy - Source 211.
- 3.1.5. TIF Capital Improvement Fund 48- Source 211 - *Kenosha School District only*.
- 3.1.6. Community Services Fund - Source 211

3.2. State and Federal Aid

State and federal aid passed through the Department of Public Instruction will be shown on the department's Aids Register. The Aids Register for each school district is available on the School Finance Team's web site. Only federal and state aids reported on the Aids Register should be coded to the revenue source codes identified on the Aids Register.

- 3.2.1. *State Equalization Aid* - General Fund source 621. Certified amount, less revenue limit penalty recognized as revenue.
 - 3.2.1.1. The amount reported by the district in General Fund source account 621 must agree with the amount identified by the DPI. *Caution: Do not use the "Equalization Aid" amount shown in the Aids Register. The Aids Register amount does not reflect end of year delayed equalization aid transactions and payments to and on behalf of the district for Open Enrollment Tuition.* Annually, with the June Equalization Aid payment, the department provides a document titled "*Calculation of State Equalization Aid Payments.*" This document identifies the accounting entries to record Equalization Aid and Open Enrollment transactions. Request a copy of this document from the district.
 - 3.2.1.2. The district should show a receivable for any equalization aid due the district as of June 30.
 - 3.2.1.3. Verify that amount recorded by the district in source account 621 agrees with the amount for this account identified by the DPI on the *Calculation of State Equalization Aid Payments.*
 - 3.2.1.4. *Other State General Aid* - Payments made to district from current year state appropriations recognized as revenue. Revenue recorded for the following aids must agree with the payments shown on the DPI Aids Register (no receivable is recorded for these).
 - 3.2.2.1. Special Adjustment Aid - General Fund source 623
 - 3.2.2.2. Other General Aid - General Fund source 629

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3.2.3. *State Categorical & Other Entitlements State Aid*- Payments made to the district from current year state appropriations recognized as revenue. The revenue recorded for the following aids must agree with the payments shown on the DPI Aids Register (no receivable is recorded for these). Determine that the district has recorded revenue equal to the Aids Register amount for the following accounts:

- 3.2.3.1. Special Education Aid - Special Education Fund 27 Source 611.
- 3.2.3.2. Transportation Aid - General Fund Source 612.
- 3.2.3.3. Library Aid - General Fund Source 613
- 3.2.3.4. Integration Aid (Resident) - General Fund Source 615
- 3.2.3.5. Integration Aid (Non-Resident) - General Fund Source 616
- 3.2.3.6. Bilingual/Bicultural Aid - General Fund Source 618
- 3.2.3.7. SAGE Grants - General Fund Source 650

3.2.4. *State Currently Reimbursable Program Aid* - Revenue recognition when reimbursable expenditures are made. The district is to record a receivable for eligible expenditures not claimed at fiscal year end.

- 3.2.4.1. State Special Project Grants passed through the DPI - Source 630 in various funds. This is aid paid for currently reimbursable State programs claimed by the district on the DPI form *PI-1086*. Request copies of the *PI-1086* and trace to reimbursements shown in the Aids Register, test underlying expenditures and determine that end of year receivables are appropriately recorded.

3.2.5. *Federal Aid Entitlements* - Revenue recognition occurs when the district is entitled to receive the aid.

- 3.2.5.1. Most common example is federal impact aid recorded in General Fund source 721 and 722, or in Capital Projects Fund source 723. Review prior year reports and determine if district received federal impact aid. Review current year remittance statements from federal government and determine that aid is recorded appropriately.

- 3.2.5.2. Other Federal Aid Entitlements - Review remittance statements and determine proper revenue recording

3.2.6. *Federal Currently Reimbursable Programs* - Revenue recognition when reimbursable expenditures are made. The district is to record a receivable for eligible expenditures not claimed at fiscal year end.

- 3.2.6.1. Federal Special Project Grants paid through the DPI - Source 730 in various funds. This is aid paid for currently reimbursable **Federal** programs claimed by the district on form *PI-1086*. Request copies of the *PI-1086* and

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trace to reimbursements shown in the Aids Register, test underlying expenditures and determine that end of year receivables are appropriately recorded.

- 3.2.6.2. Other Currently Reimbursable Federal Aid other than through DPI - Review claim forms, expenditures and determine proper revenue recording. Direct federal aid should be coded to source 791. Federal aid received through a not-for-profit should be coded to source 792

3.3. Supplies and Materials Inventories, Prepaid Expense

- 3.3.1. Expendable supplies, non-capital items and equipment acquired for use in subsequent fiscal periods recorded as supply inventory and/or prepaid expense.
- 3.3.2. Prepaid expense accounts are not used for recording unexpired insurance premiums or equipment maintenance service contracts unless not doing so would result in more than one year's cost being recorded.
- 3.3.3. Test expenditures and review end of year purchases to determine that district is recording prepaid expense appropriately.

3.4. Equipment, Buildings, Sites and Improvements

- 3.4.1. Equipment is recorded as an expenditure when placed in service.
- 3.4.2. Buildings, sites and improvements are recorded as expenditures when acquired.
- 3.4.3. If the construction project is not completed, the value of work in progress, if billed by contractors, is recognized as an expenditure during the fiscal period the work was completed.
- 3.4.4. Test expenditures and review end of year purchases to determine that district is recording equipment, buildings, sites and improvements appropriately.

3.5. Payroll and Payroll Related Items. Determine that the district has reported payroll and related items as required for school district reporting to DPI as follows:

- 3.5.1. *Payments for employee services and related benefit costs (employee health, life & disability insurance, FICA, Wisconsin Retirement System, annuities)* recorded as an expenditure in the fiscal period employee services are provided. Auditors should verify that the district has reported twelve months of payroll and related expenditures.

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3.5.2. *Accumulated Compensated Absences* - Accumulated unpaid vacation, sick leave, earned "compensatory" time recognized in the fiscal period when the accumulated time is used, not earned. This is a noted regulatory reporting requirement that differs from GAAP. The district should not be reporting compensated absences as "other non current liability in balance sheet account 849000."

3.5.3. *Termination and Post-Employment Benefits* - Termination payments, insurance payments on behalf of former employees or dependents, supplemental retirement payments not part of a defined plan, and other post-employment benefits recognized as an expenditure in the fiscal period payment required to be made rather than when earned or at termination date. **If the district recognizes post-employment benefits as an expenditure when earned, and is funding these expenditures through a trust, see fund 73 procedures.**

3.5.4. *Unsettled Employee Contracts* - Payroll and related benefit costs are recorded as fiscal period expenditures to the extent that they are costs associated with implemented (including "QEO") bargaining agreements. If there is no implemented agreement with an employee bargaining unit for the current fiscal year, no additional cost for an estimated settlement can be recorded unless the district and the bargaining unit are required submit final offers to the Wisconsin Employment Relations Commission (WERC). In such a case, the recording of additional cost is limited to the lower of the district's or bargaining unit's offer.

3.5.5. *Self-Funded Health Benefits* – The liability for self-funded health benefits are limited to incurred cost during the fiscal period, including an estimate for incurred but not reported (IBNR) claims as determined by the plan administrator. Additions to fund balance reserve accounts cannot be included in expenditures.

3.5.6. *Prior Service Liability* - A prepayment of a pension system "prior service liability" is recognized as an expenditure in the fiscal year the expenditure is made. If the payment is made using General Fund resources, it is charged as an expenditure of the General Fund. A payment with the use of debt proceeds is treated as a refinancing transaction in the Debt Service Fund. This is a noted regulatory reporting requirement that differs from GAAP.

3.6. Charges for Providing Services to Other Educational Agencies - Revenue recognized in the fiscal period the services are provided. Determine that district is charging other districts as required and reporting appropriately.

3.6.1. Non-Open enrollment charges

3.6.1.1. Non-Open enrollment general tuition is billed according to DPI tuition worksheet or per alternative agreement between school districts.

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3.6.1.2. Charges for "non-open enrollment" special education services are billed at full cost without a reduction for state aid payments or a reduction for anticipated aid related to such services. In the following year, upon receipt of state special education aid payment from the department, the district providing special education services makes a state special education aid transit payment to district paying the tuition.

3.6.2. Open enrollment charges

3.6.2.1. Open enrollment general tuition is per state determined amount. Payments of open enrollment general tuition are made by the DPI. Open enrollment general tuition amounts are identified by the DPI on the *Calculation of State Equalization Aid Payments* sent to each district with the June equalization aid payment.

3.6.2.2. Open enrollment special education tuition is per agreement with paying school district.

3.7. Cost for Services Provided by Other Educational Agencies - Expenditures are recognized in the fiscal period services are received. See previous section "Charges for Providing Services to Other Educational Agencies" for accounting and reporting requirements. Determine that district is recording expenditures as required and reporting appropriately.

3.8. Revenue for School Based Services (SBS) or Medicaid Revenue

3.8.1. Reimbursements for eligible services are recognized as revenue in the fiscal period that they are received by the provider agency.

3.8.2. No offset for the revenue received or anticipated revenues are made against expenditures.

3.8.3. If reimbursements are due the district from a CESA or another district, a revenue and receivable transaction must be recorded based on information contained in a confirmation requested from the CESA or the other district.

3.8.4. Detailed accounting and reporting requirements for SBS are provided in the WUFAR "Transaction Coding" section. Determine that the district is recording and reporting SBS transactions as required.

3.9. Participation in a Consortium

3.9.1. A district acting as a fiscal agent of a consortium will receive revenues and make expenditures on behalf of consortium participants.

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3.9.2. Expenditures funded through grants and debt proceeds received directly by the fiscal agent on behalf of the consortium are not recorded by other participants.

3.9.3. Determine that the district is recording and reporting consortium participation as required.

3.10 Long-Term Debt

3.10.1. Incurred long-term debt (bonds, notes, state trust fund loans, land contracts, capital leases, TEACH loans) is recorded at the full principal amount, i.e. "face" or "par" amount.

3.10.2. An amount identified as a "discount" is recorded as an expenditure. No amortization of the discount amount is made.

3.10.3. Premium and accrued interest received as part of bond or long-term promissory note issuance is recorded as Debt Service Fund revenue in funds 38 or 39.

3.10.4. Offsetting expenditures equal to the amount financed is recorded for land contracts and capital leases.

3.10.5. Long-term debt principal and interest expenditures are recorded when payment is due.

3.10.6. Determine that the district is recording and reporting long-term debt transactions as required.

3.11 Temporary (Cash Flow) Borrowing

3.11.1. Proceeds are credited to General Fund liability account.

3.11.2. Interest cost is accrued during the fiscal period. Accrued interest payable is recorded at the end of the fiscal period in account 811700

3.11.3. Premium and accrued interest received as part of tax anticipation note issuance (cash flow borrowing) is recorded as General Fund revenue in source 968. No amortization of the premium amount is made.

3.11.4. Determine that the district is recording and reporting temporary borrowing transactions as required.

3.12 Temporary Investment Income

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3.12.1. Interest revenue recorded as revenue in fiscal period related to the investment. Interest receivable is recorded at the end of the fiscal period for accrued interest earned but not received in account 713300.

3.12.2. Determine that the district is recording and reporting temporary investment income transactions as required.

REFUNDS OF REVENUES AND EXPENDITURES

4. Analyze the following accounts used to record refund transactions and determine that the district is recording transactions in accordance with the *"Financial Reporting Requirements"* definitions:

4.1. General Fund revenue source account 972 "Non-Aidable Refund of Disbursement."

This account normally would only have payments received from municipalities resulting from collection of "property tax chargebacks" that the district charged the expenditure to Object 972. Other items may be recorded in this account with specific authorization of the DPI. A **tax levy** made by the district to recover chargeback payments is credited to revenue source account 212, "Property Tax Chargebacks."

4.2. General Fund expenditure object account 972 "Non-Aidable Refund Payment."

This account is where the district charges refunds made by the district of "non-deductible revenue." Normally, this is only property tax chargeback payments to municipalities.

4.3. General Fund revenue source account 971 "Aidable Refund of Disbursement."

This account is used to record refunds of prior year expenditures other than those coded to source account 972 and cash E-Rate refunds received by the district. This account should **not** have payments received from municipalities resulting from collection of "property tax chargebacks."

4.4. General Fund expenditure object account 971 "Aidable Refund Payment."

This account is used to record refund payments of prior year equalization aid "deductible" revenues. This account should not include refunds of property tax collections or general aid receipts. A payment of an E-Rate refund to the "TEACH Wisconsin" program would be recorded here.

INTERFUND TRANSFERS AND PAYMENTS

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5. Analyze inter-fund transfers and payments and determine that such transactions are as permitted by *Financial Reporting Requirements*.

5.1. Operating Transfers from the General Fund

This transfer can only be made to the Special Education Fund, Debt Service Fund, Food Service Fund and Other Cooperatives Fund. A transfer from the General Fund (Fund 10) is required to close out the Special Education Fund (Fund 27). The Special Education Fund must have a fund balance equal to zero at June 30.

5.1.1. Transfer to Special Education Fund - Determine that total General Fund expenditures reported in line 10 E 000 000 000 on the PI 1506 AC includes an amount necessary to bring fund balance in the Special Education Fund to zero. This amount should be recorded by the district in General Fund function 411 000, object 827.

5.1.2. Transfer to the Debt Service Fund - This transfer can be made only to the extent used to make current fiscal year debt service payments. Normally this will occur when the district wishes to use accumulated General Fund fund balance to retire long-term debt. Note that state statutes require a debt service tax levy sufficient to meet payments as they become due. A transfer to the Debt Service Fund can be made to provide funds necessary to make debt payments coming due prior to the first collection of taxes.

If line 10 E 000 000 000 on the PI 1505 AC includes an amount for a transfer to the Debt Service Fund, determine that the transfer was an amount used to make debt service payments. Any transfer to the Debt Service Fund from the General Fund should be recorded in General Fund function 411 000 object 838 or 839. The DPI will make an inquiry to the district if a transfer was made from the General Fund to the Debt Service Fund and the district reports an increase in Debt Service fund balance.

5.1.3. Transfer to the Food Service Fund - There can be no deficit in the district's Food Service Fund. A fund balance in the Food Service Fund is permitted. Any Food Service Fund deficit, resulting from student food services, must be eliminated by a transfer from the district's General Fund. Any Food Service Fund deficit, resulting from elderly food services, must be eliminated by a transfer from the district's Community Service Fund. The maximum that can be transferred if the district does not have a deficit in the Food Service Fund is limited to an amount necessary to cover a current year deficit in a particular food service program (National School Lunch, Breakfast, Ala Carte, etc).

Determine that total General Fund expenditures reported in line 10 E 000 000 000 on the PI 1505 AC includes amount necessary to bring fund balance in the Food

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Service Fund to zero. This amount should be recorded by the district in General Fund function 411 000, object 850.

If the district has made a transfer to the Food Service Fund and a Food Service fund balance greater than zero exists, determine that the transfer amount does not exceed the total amount necessary to fund program deficits. If the reason for the apparent excess transfer is to fund a specific program deficit, reference should be made to the "Food Service Claim Worksheet," (form *PI 1409*) for the fiscal period in determining the permitted transfer amount.

5.1.4. Transfer to the Other Cooperatives Fund - An operating transfer to a Cooperative Fund ("90" Fund Series) can only be made to reimburse the Cooperative Fund for the district's share of a cooperative program where the district is the host or fiscal agent for the program.

5.1.5 Transfer to the Community Service Fund – Transfers **may not** be made from the General Fund to the Community Services Fund. Any deficit must be eliminated the following year by a tax levy or user charge.

5.2. Transfers to Capital Projects Fund - Districts cannot transfer funds from the General Fund to the Capital Projects Fund (Fund 49) for contemplated future projects. There is no provision to report, on the district's Annual Report to the DPI, a General Fund transfer to the Capital Projects Fund. Facility related costs funded with General Fund resources are charged to the appropriate General Fund function-object accounts as expenditures occur.

5.3.1. If the district has made an inter-fund transfer or payment to the Capital Projects Fund (Fund 49), determine that it was not to set resources aside for future projects. If the transfer or payment was made to fund current expenditures, provide the district with an adjusting entry to reclassify the Capital Project expenditures to the corresponding function and object accounts in the General Fund.

CAPITAL EXPANSION FUND - The annual meeting of a school district may approve a segregated "capital expansion fund" tax levy for expenditures related to buildings and sites. Equipment acquisition is not a permitted purpose for a capital expansion fund levy. Subsequent annual meetings must approve continuation of the tax levy.

The district is required to establish a capital projects sub-fund (WUFAR Fund 41 "Capital Expansion Fund") to account for revenues and expenditures related to the segregated tax levy. A Capital Expansion Fund cannot be used for any purpose other than that originally identified unless a change in purpose is authorized by a majority vote of electors present at a subsequent annual meeting where notice was provided that the issue would be on the meeting agenda.

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6. Perform the following to determine if the district is reporting Capital Expansion Fund transactions as required:

6.1. Review Annual Meeting minutes. If a capital expansion fund levy has been adopted, determine that the proper amount has been levied by the district, recorded and reported as a Capital Expansion Fund (Fund 41) levy.

6.2. Analyze expenditures reported by the district as Fund 41 expenditures. Determine that reported expenditures are in accordance with the purpose identified in the authorizing resolution.

6.3. If a transfer was made from the Capital Expansion Fund, determine that it was per Annual Meeting approval and as included in the agenda notice.

Capital Property Sales - Annual Meeting authorization is required for the sale of property not needed by the district (Statute 120.12(10)). Proceeds from such sales are required to be credited to the General Fund unless the annual meeting has authorized deposit in another fund.

7. Analyze property sale transactions:

7.1. Determine that property sales have been authorized by the Annual Meeting and been credited to the General Fund unless deposit to another fund has been authorized.

Long-Term Debt Issuance - The WUFAR requires long-term borrowing (other than capital leases and loans from the TEACH Wisconsin program) used for the acquisition of equipment, maintenance projects, facility construction or remodeling be accounted for in the Capital Projects Fund (Fund 49).

School districts may also use long-term promissory notes for general and current expense "operational borrowing", statute 67.12(12). State trust fund loans may also be used for operational purposes under Chapter 24 of the statutes. Long-term operational borrowing is unusual as school boards are required to adopt a tax sufficient (subject to revenue limit constraints) to operate and maintain district schools. Currently only one school district in Wisconsin is authorized for long-term operational debt. A school district must have DPI approval prior to issuing long-term operational debt.

Proceeds from operational borrowing are deposited in the district's General Fund and is a "non-deductible" resource in determining shared cost used for general aid calculation. Interest payments on long-term operational debt, although paid out of the Debt Service Fund, are included in shared cost as an adjustment to General Fund expenditures.

8. Analyze debt transactions:

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- 8.1. If long-term promissory note or State Trust Fund borrowing proceeds have been deposited in the district's General Fund, determine that the borrowing purpose is identified as being for General Fund operations. If the borrowing is for acquisition of equipment, facilities, maintenance or remodeling projects, provide entries to reclassify the borrowing proceeds and related expenditures to the Capital Projects Fund. Currently only one school district in Wisconsin is authorized for long-term operational debt
- 8.2. If the district has debt service expenditures coded as "Long-Term Operational Debt" (WUFAR Function 283 00), determine that such payments are for debt issues where the proceeds were credited to the district's General Fund.
- 8.3. Review the prior year Annual Report and if the district has operational borrowing transactions shown, i.e. long-term debt proceeds credited to the General Fund or long-term operational debt payments made (Debt Service Fund function 283 000), determine that current payments on the debt issue are recorded in the Debt Service Fund as operational debt.

Long-Term Debt Refinancing - School districts may refinance outstanding long-term debt as permitted by Chapter 67 of the statutes. Refinancing debt proceeds are receipted to the Debt Service Funds 38 or 39. All expenditures associated with the refinancing transaction, including principal and interest payments along with related service charges are recorded to WUFAR function account 282 000 "Refinancing" in the Debt Service Fund.

If the refinancing transaction requires the use of Debt Service Fund resources other than borrowing proceeds, the additional cost is to be recorded as an "Other Debt Service" to Capital Debt expenditure (WUFAR function 281 000, object 690).

If the proceeds from the refinancing borrowing are in excess of that needed to fund the refinancing transaction, WUFAR source account 960 "Adjustments" should be credited for the excess amount.

If use of the refinancing borrowing will occur in a future fiscal period, the available balance is to be identified as a reserved Debt Service Fund account, WUFAR balance sheet account 931 710 "Reserved for Refinancing".

Upon issuing long-term debt, a district may be required to place in the Debt Service Fund a portion of borrowing proceeds for scheduled payments (sometimes referred to as "capitalized interest" by financial consultants) prior to receipt of tax revenue. Such transactions are required to be coded and reported in the Annual Report in the same manner as refinancing transactions.

9. Analyze debt transactions and determine if refinancing transactions occurred:

- 9.1. If borrowing proceeds are receipted to the Debt Service Fund, determine that the use of these proceeds is charged as a refinancing expenditure, WUFAR function 282 000, or

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included in a refinancing reserved fund balance, WUFAR balance sheet account 931 710.

- 9.2. Review the prior year Annual Report. If proceeds from borrowing credited to the Debt Service Fund remain unspent at year end, determine that any current expenditure of the carryover balance is charged to WUFAR function 282 000.
- 9.3. If Debt Service resources other than borrowing proceeds originally receipted to the Debt Service Fund are required for expenditures related to the refinancing transaction, determine that the additional cost is reported in the Annual Report as an "Other Debt Service Cost" (Object 690) and WUFAR function 281 000.
- 9.4. If proceeds from the refinancing borrowing are not going to be used for refinancing expenditures, determine that WUFAR source account 960 "Adjustments" was credited for the excess amount.

Self-Funded Health Care Benefits - School districts may offer health care benefits to employees on a self-insured basis per Statute 120.13(2). Benefit plan costs charged to expenditure accounts cannot exceed actual costs and must include an estimate of incurred but not reported (IBNR) claims and related costs. Premium equivalencies based on an estimated annual plan cost may be charged against district accounts and claimed against federal and state assistance programs. The charges to assistance programs are to be adjusted to actual cost, including IBNR costs.

The Wisconsin Attorney General has stated that it is not appropriate for governments to accumulate funds for contingencies that may never occur (OAG 18-87). If the district wishes to have a designated or reserved fund balance for self-funded health benefits, the district should discuss with legal counsel and benefit consultants the authority and justification for balances maintained in such accounts.

10. Analyze health benefit transactions and determine if the district has a self-funded health benefit plan:
 - 10.1. Determine the June 30 amount in the "Claims Payable" account (WUFAR account 817000) is sufficient, but not in excess of the amount needed to fund all unpaid benefit plan costs, including IBNR claims as determined by the plan administrator, and does not include a contingency amount.
 - 10.2. Determine that any Claims Payable account adjustment is appropriately allocated against expenditure object code 240. Adjustments less than 5% may be coded to object/source 965
 - 10.3. Determine that the June 30 balance in WUFAR account 815110 "Self Funded Health Care Deposits -- District Share" results from employee services prior to that date. The

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balance in this account should represent prepaid retiree premiums and the district share of the premium equivalent needed to fund benefit coverage before the start of the next school term and/or otherwise committed as required by contract.

- 10.4.** Evaluate the methods used to determine premium equivalency charges and ascertain that such charges were applied and adjusted uniformly to district accounts and financial assistance programs.
- 10.5.** If the district has a designated or a reserve fund balance account for the benefit plan, determine that the district has consulted with legal and benefit advisors in establishing and determining the amount to be maintained in the account.